The Added Value of Cohesion Policy

1. Introduction

The justification of community intervention in assisted regions leads to consideration of the question of community added value. The basic proposition is that such justification exists when the actions of member States are not sufficient (the criterion of need) and when benefits are generated for the entire Union (effectiveness criterion).

Cohesion policy aims to promote the development and structural adjustment of regions. It is based on a sharing of competences between the European Union, member States and regions. The method of distribution on which the policy is based concentrates more than two thirds of resources available – which are limited to 0.41% of EU GDP – on regions whose structural development is lagging behind, comprising about a quarter of the European population.

Where the Union intervenes in regions in difficulty, through the Structural and Cohesion Funds, it is to act upon the causes of regional disparities. In other words, this policy has not only a redistributive character, in that it transfers resources from the richest States and regions of the Union to the poorest ones. It also performs an allocative function, permitting less favoured States and regions to maintain high levels of investment in physical and human capital in order to improve their competitiveness and their growth potential and to promote sustainable development.

To identify the principal elements of added value, the following questions need to be addressed:

- Has cohesion policy produced direct economic benefits of a sufficient scale for the member States and regions supported and for the entire Union, with regard to the objectives sought and the methods implemented?
- To what extent has it supported greater integration of these member States and regions into the internal market?
- To what extent is community intervention necessary for the durability of methods initiated in 1989 - notably multi-annual programming and partnership?
- Has cohesion policy been sufficiently visible and close to citizens?

This note provides precise elements drawn from experience of value added generated in member States and regions supported, and indicates how these could be strengthened in future programmes over the 2007-2013 period.

2. Added Value in Terms of Cohesion

Because of the differences in content and the scale of assistance, it is necessary to distinguish clearly the question of the added value of interventions in less developed regions and those in regions having structural problems of economic conversion and competitiveness.

Less Developed Regions

The Structural Funds have been a driving force in the process of growth and economic convergence in the countries and regions which are the principal beneficiaries.
In the three cohesion countries (Spain, Greece, Portugal), GDP per head expressed in PPS has grown to 81% of the community average in 2001. Ireland had seen its GDP per head practically double during the same period, from 64% in 1988 (the same level as Calabria) to 117% in 2001.

Since 1994, growth in GDP per head has been one point higher than the community average in Spain, Greece and Portugal, and four times higher in Ireland. This performance is all the more important since it takes place in a context of macroeconomic stability, linked to the constraints of Economic and Monetary Union.

In Objective 1 regions, the gap in revenue per inhabitant compared to the community average has been reduced by a sixth between 1988 and 2001. GDP per inhabitant has grown from 63% to 70% of the average of the EU15. Certain member States and regions, particularly Ireland, the eastern German Länder and Lisbon have registered economic performance in terms of productivity much higher than the general trend. Overall, Objective 1 regions have converged three times faster than the rest of Europe.

Over the period 1989-1999, the increase in the level of GDP due to structural interventions was near 10% in Greece and 8.5% in Portugal. The impact is less pronounced in Ireland and Spain (3.7% and 3.1%, respectively), the allocations of Structural and Cohesion Funds in terms of percentage of GDP being less significant. For 2000-2006, further gains in convergence are forecast, with a growth in the level of real GDP of about 6% for Greece and Portugal and 2.4% for Spain. In the German Länder, simulations suggest an increase in the level of GDP of 4% 2006. In all cases, long term improvements are expected in the level of GDP, because of the growth induced by increased supply, a tendency which should continue beyond the programming period.

Community interventions had a significant leverage effect on the level of investment in Portugal (+24%), Greece (+18%) and Ireland (+12%) during the 1994-1999 period. This effect has taken the form of an increase in the stock of physical capital (infrastructure) of the order of 15% in Portugal and 6% in Greece. The stock of human capital has grown by 20% in Portugal and 12% in Ireland.

Although structural policies have a tendency to be judged on the basis of their effects in terms of growth and convergence, it is equally important to consider their impact on the key factors determining the competitiveness of the economies concerned. Substantial progress has been achieved in the area of basic infrastructure as well as in other sectors where territorial imbalances are particularly pronounced, such as research and development, access to the information society and continuing education and training opportunities.

Certain impacts are more marked than others, as the following examples demonstrate:

**Actions with a high community added value**

- In relation to transport, a closing of the gap has been achieved in upgrading the motorway system, notably as regards transeuropean networks. In cohesion countries, the density of the motorway network has increased from

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1 Productivity gains have also been higher in Objective 1 regions than in other parts of the EU, with a growth of 1.5% on average between 1994 and 2001 compared to 1% in the entire EU. (Third Report on Economic and Social Cohesion, 2004)
about 80% of the EU average in 1991 to 110% in 2001, with gains in journey times of the order of 20-30%. The modernisation of the rail network has been slower, but with notable progress in terms of electrification: the proportion of electrified lines has moved from 48% to 56% in Spain and doubled in Portugal to exceed 30% in 2001. Public-private partnerships have increasingly been put in place in the transport sector (for example, the Vasco de Gama bridge, the Drogheda motorway in Ireland).

Examples: In Spain, construction of 2,400 km of motorways and 3,400 km of primary routes during the 1994-1999 period and 2,500 km and 700 km respectively for the 2000-2006 period; extension of the high speed rail network (from 623 km to 1,140 km) notably with the Madrid-Barcelona-French frontier link. In Portugal, construction of road links to the transeuropean network and modernisation of the rail network (Lisbon-Porto). In Greece, construction of two major motorways linking the east and west and north and south (completion is foreseen before 2010). Decongestion of metropolitan areas with the construction of metros in Lisbon, Porto and Athens; development of a number of ports and airports (e.g., Athens-Spata).

• **Support for the productive sector** represents more than a third of the volume of resources, of which near 20% is in the form of aids to industry. The mechanisms of support have been diversified towards financial engineering measures, giving rise to an increased leverage effect on private investment. Complementarity and co-operation with the EIB have also been strengthened.

Examples: Special investment funds in the UK (Merseyside and South Yorkshire)

• The **environment** is an essential area for community intervention and it absorbs approximately 10% of Structural Fund investments made in Objective 1 regions (to which nearly €15 billion is added from the Cohesion Fund). Progress is notable in terms of the upgrading of equipment, particularly in the cohesion countries. Between 1989 and 1999, the population connected to water supply systems increased from 69% to 95% in Portugal and reached 50% in Greece (75% in 2006); the population connected to waste water treatment plants increased from 50% to 90% in Portugal and from 44% to 80% in Ireland and reached 53% in Greece.

Examples: construction of the Alqueva dam in Portugal; development of large river basins in Spain; development of renewable energies (wind energy centres along the Portuguese coast), Tolvaddon in Cornwall (UK), waste water systems in Dublin and Athens co-financed by the Cohesion Fund and the ETAR de Madalena (in accordance with the strategic plan for the treatment of waste water).

• As regards **research and development** and the **information society**, the stronger emphasis placed on integrated strategies for innovation and the interaction of university research centres with the world of business has promoted the improvement of competitiveness and has facilitated integration in an international context. Likewise, the greater diffusion of services and applications of the information society towards SMEs (for example, 15% of SMEs in Greece will engage in electronic commerce by 2006) will contribute to the achievement of this objective. The objective of stimulating the competitiveness of regions is in line with the community policy to establish a European research area including an important role for the **regional** dimension in research policies.

Examples: creation of scientific and technological poles (“Forth” Centre in Heraklion for biotechnology, TagusPark in Lisbon, biotechnology centre in Leipzig); networking
of schools in Greece (e-learning); “digital towns” in Portugal; broadband networks in Scotland (Atlas project), Sweden and France.

- Finally, the contribution to the European Employment Strategy through the European Social Fund has dynamised the development of human resources and facilitated a better response to local labour market needs and employment possibilities. It will become easier to enhance productive capacity in the regions and to implement active employment policies, in accordance with the objectives established in Lisbon and Stockholm2.

Examples: In Germany, the ESF co-financed nearly 20% of enterprise start-ups, in particular in the eastern Länder. In Denmark, the ESF supports the adaptation of workers and the introduction of new forms of work organisation. In the UK, the Merseyside programme has financed the establishment of “pathways to integration”.

In conclusion, cohesion policy has strengthened the overall level of investment, growth and convergence to an extent which would not have occurred without community transfers. This has had the effect of strengthening the long term growth potential of the Union, since less favoured regions are using the factors of production more efficiently.

Regions in Economic Conversion

Apart from the aid allocated to Objective 1 regions, the Structural Funds contribute to support economic development in other regions of the Union which face structural problems of competitiveness. Evaluations demonstrate that community interventions have helped to alleviate the economic decline of industrial and rural regions. Unemployment decreased by 1% more than in the rest of the Union during the 1995-2000 period; the reduction was particularly evident in the areas with a strong presence of transitional industries – which represented 40% of employment – demonstrating that employment losses in these industries was more than compensated by the creation of new jobs, particularly in services. Growth was slightly weaker than in the entire Union (2.1% as compared to 2.4%), which suggests that the decline was checked to a certain extent. On the other hand, the combination of weaker growth and a stronger increase in employment implies that productivity has grown less in Objective 2 areas than in other parts of the Union.

For the 1994-1999 period, aid3 was concentrated on measures to support enterprises (approximately a quarter of the total), economic infrastructure, particularly the development of industrial sites (approximately 27%), training and requalification of workers (approximately 20%) and research and new technologies (nearly 10%). These investments had important effects in terms of restructuring and diversification of economic activity.

Evaluations estimate that nearly 500,000 net jobs were created or safeguarded in the assisted areas; most of these were durable, due to the small and medium sized

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2 The Guidelines for employment were simplified in 2003 on the basis of three major strategic objectives: full employment, the quality and productivity of work, cohesion and regional and social inclusion. In addition, a greater emphasis is placed on the involvement of social partners and on the need for member States to implement the European Employment Strategy at the regional and local level.

3 For the 1994-1999 period, structural assistance represented an amount of €2.8 billion per year (€3.2 billion for the 2000-2006 period), with an aid intensity of €44 (currently €41). 82 regions with a population of 62 million inhabitants (representing 17% of the population of the EU15) benefited from support under Objective 2.
enterprises supported – about 300,000 – to improve methods of production, to have better access to services and to research new opportunities. As a result, the leverage effect of the Structural Funds on the private sector was in general significant, representing 40% of total resources mobilised (as compared to 18% in Objective 1 programmes).

The qualifications of those in employment have been improved and extended, which has accelerated the process of restructuring and has slowed the pace of job loss. Training programmes have been put in place to tackle the lack of qualifications and their obsolescence in the context of rapid technological change. Specific measures have been supported, notably in the UK, to assist disadvantaged groups to access training and to find employment. Overall, it is estimated that 3.6 million people – 5% of the total population living in supported regions – benefited from training between 1994 and 1999.

Substantial efforts took place with the support of the Structural Funds to clean up abandoned industrial sites, to convert old sites and buildings (approximately 115 m² of industrial land converted), and to improve the urban landscape. This has radically changed the aspect of numerous industrial areas and has helped their development for new productive uses such as leisure parks and other cultural activities.

Finally, support for research, innovation and the transfer of technology has been particularly effective in the creation and maintenance of employment. In certain regions the Structural Funds have supported the creation of poles of excellence and the promotion of “clusters” of innovation – Rhineland-Westphalia, North West England, Sweden, Finland (Oulu), Denmark (NOVI science park at Aalborg. However, apart from these notable exceptions, the innovation capacity of most Objective 2 regions remains less developed than in the more competitive regions of the Union and their potential for research is often not well adapted to the regional productive sector. A major challenge is to concentrate a greater share of the available resources on the support for innovation and the knowledge economy in the regions in order to strengthen their position at the hear of the European research area.

In conclusion, interventions in favour of Objective 2 have produced demonstrable positive effects, but the constraints which have limited their effectiveness should also be considered. The small scale of many eligible areas made the pursuit of integrated strategies difficult, leading to a dispersion of resources on a myriad of operations rather than concentrating on fewer well chosen projects. Because of the small size of the operations financed, it was often difficult to obtain sufficient amounts to finance projects which could have a decisive effect on regional development, all the more since the Structural Funds represent in most cases, the principal source of financing or at least an essential additional source for regional and local investment policies. The challenge for the future will therefore be to promote greater concentration of interventions on the key factors of competitiveness (for example, innovation) and to develop a strategic approach which responds to the needs of the regions (see §4 on the importance of the community method which brings greater stability and coherence for interventions at regional level).

3. Strengthening Economic Integration

European economies are ever more integrated through exchanges and flows of direct investment. Community policies have contributed significantly to the achievement of the internal market and the introduction of the single currency. Cohesion policy has stimulated trade flows and has influenced the choice of location
for economic activities, contributing thus to reduce the development gaps between economies.

Trade between the cohesion countries and the rest of the Union has more than doubled over the course of the last decade. Part of this growth reflects the gains which other countries have drawn from the structural support allocated to the less favoured regions. Estimates suggest that about a quarter of expenditures return in the form of imports, notably of machinery and other equipment, because of higher investment and growth generated. This “leakage” effect is particularly important in Greece (42%) and Portugal (35%).

An essential part of support (more than 40%) is directed towards the financing of basic infrastructure. Between 1994 and 2001, more than €40 billion of Structural Funds support were invested in transport infrastructure in Objective 1 regions, as well as nearly €14 billion in transeuropean networks. These infrastructures have an influence on the location of economic activities through reinforcing the attractiveness of the regions concerned. They stimulate economic activity through a reduction of transport costs and, in the long term, an increase in productivity. For example, the combined effect of the motorway projects of Egnathia and Pathe will raise the real income of Eastern Macedonia by about 9%4.

The Structural Funds encourage the location of intensive R&D activities, through investment in research and electronic communication networks (broadband), thus encouraging a long term more balanced spread of activities across European territories. These investments – which represent nearly 10% of total aid – are targeted at raising the scientific and technological level as well as creating sources of economic activity in the weakest regions. In this sense, they contribute to the Lisbon objectives (for example, the action plan for 3% investment in research, high speed connection coverage, etc.). They can also promote territorial re-balancing: in regions where research and innovation can develop, opportunities are created to produce a “snowball effect” in new economic activities.

In regions hit by industrial decline, support for the restructuring process and the management of change promotes a better response to the asymmetric shocks created by the euro. The weak specialisation of these regions makes them more vulnerable to these shocks. In acting on the structural factors of competitiveness, the Structural Funds strengthen their capacity for adaptation to change.

The environment is a domain of community intervention which has an important leverage effect in terms of respect of community legislation and the introduction of the polluter pays principle.

INTERREG programmes have also assisted in opening up border regions (for example, the Spanish-Portuguese border with the bridge over the Guadiana and the Huelva-Lagos motorway; the Oresund bridge between Copenhagen and Malmö). They have initiated processes of co-operation between regions which could only be organised at a transnational level. Interreg has thus contributed to greater cohesion and reduced the impact of national, economic and cultural barriers.

In conclusion, cohesion policy contributes directly to strengthen the economic integration of Europe, in acting as a lever for community policies. It supports the reconciliation of citizens and promotes co-operation and innovation on a trans-

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national scale. This last aspect will be even more important in the light of the changes arising from enlargement of the Union to 25 and then 27.

4. Contribution to Better Governance

Since their creation, the Structural Funds have been based on a system of new governance which brings together strategic programming, concentration, additionality, partnership and effectiveness.

The multi-annual programming method requires rigour of the main beneficiary countries and regions in their medium term strategic planning which effects their future development. Development plans reduce uncertainty in a context of economic instability. They introduce a greater stability in terms of availability of financial resources compared to member States’ annual budgets. This aspect is particularly relevant in the case of large scale infrastructure investments, the completion of which requires a relatively long period, and more generally development and conversion policies. The case of the Mezzogiorno is enlightening in this regard, in the extent to which the Structural Funds have influenced strategic objectives towards a logic of structural adjustment and growth, rather than as a simple compensation for structural handicaps.

In many Objective 2 regions, this strategic approach has proved to be effective in targeting investments on the key factors of development, particularly research and innovation actions which are often vulnerable to the hazards of annual budgeting, as well as forging a better sharing of risk. This also leads to greater rigour in the selection of projects and improved coherence of projects. The quality of programming has continued to improve throughout successive periods of implementation of the Structural Funds.

Examples: Rhineland-Westphalia, Bremen, Scotland, Wales, Northern Sweden, Western Finland, North Jutland (Denmark), Lower Austria, Steiermark (Austria), Limburg (Netherlands), Tuscany, Basque Country.

The Union plays an irreplaceable role in providing support to public investment for economic development. While public budgets represent between 30% and 60% of GDP according to the country concerned, only 2% of available resources are directed towards investment in physical and human capital. However, the leverage effect of European support is that much greater when this support is not substituted for the financial effort of the member States and regions and when it is not merely added to the credits which are allocated for operations which would have taken place in any case. In this regard, it is important to emphasise that total public investment (less the Structural Funds) has clearly increased in Ireland (+66%), Greece (+24%) and in Portugal (+18%) during the two last programming periods.

In certain more developed member States, the availability of Structural Funds has influenced the level of national public expenditure. In Austria and Sweden, regional policy has acquired a higher profile and the public contribution for regional policy has grown significantly – by 36% and 14%, respectively.

The need to provide national co-financing has “protected” expenditure for economic development from budgetary pressures which might aim to limit them. This leverage effect is particularly significant in key areas for economic development such as R&D, where expenditure is concentrated in more developed regions.
Over the last 15 years, partnership has been widened and deepened and, in certain cases, has developed beyond the Structural Funds. This principle, when it functions effectively, produces a strong added value in terms of better targeting of interventions on regional needs, greater participation of the partners, stimulation of development projects and the exchange of information and experience.

Example: In the UK, community interventions have enlarged partnership to new organisations previously little involved in economic development programmes. Opportunities have thus been created to guarantee resources additional to existing budgets to local authorities and other voluntary organisations to respond to particular development needs.

Partnership working methods have activated dynamic processes which can lead to the stimulation of local investment and, in the long term, the creation of sustainable employment. The case of the Regional Innovation Strategies (RIS) is significant in this regard: the establishment of these strategies has led to the integration of many actions into programmes (for example, Wales, Scotland, Nord-Pas de Calais, Castilla-y-Leon). The networking of these initiatives under the aegis of the Commission has contributed a value added through the learning processes and the co-operation which take place.

Several member States – Sweden, the Netherlands, Denmark (for the ESF), Austria, France, Spain, UK – have established horizontal networks, which bring together programme managers operating at a regional level with a view to promoting exchanges of experience and good practice. These forms co-operation would not have taken place in the absence of community intervention. In Spain and Italy, thematic networks (networks of environmental authorities) have been put in place. The European Commission has also supported networks of exchange of experience at a European level (for example, the IQ-Net network comprises 22 European regions).

In the last generation of programmes (2000-2006), the implementation of regional development strategies is based on more rigorous systems of management, monitoring and evaluation. These have been strengthened by incentive mechanisms (the N+2 rule, the performance reserve) which have played an important role in relation to transparency and effectiveness. A greater institutionalisation of evaluation can be observed in Italy (creation of specialised evaluation units), Ireland and Austria (Kap-Eva), a practice which often extends to national policies (France). Another important aspect concerns the strengthening of control and audit systems in the member States and regions.

5. Visibility of Community Action

An intangible effect of the Structural Funds, difficult to measure but nonetheless essential, is the contribution towards making the Union more visible to citizens, enterprises and local authorities. Among the benefits frequently cited is greater support for European integration. Citizens who perceive an improvement in their quality of life – for example in more efficient public transport or a better natural environment – acquire a more accurate view of community action. The Interreg, Urban, Equal and Leader programmes have contributed in this regard, to varying extents, in acting as a catalyst for new initiatives, which would not have occurred without community intervention.

The Structural Funds have also contributed to the promotion of peace and stability in regions where there have been sustained conflicts (Peace Programme in Northern
Ireland) as well as solidarity with regions effected by natural catastrophes (floods in eastern German and in the Czech Republic).

6. Strengthening Community Added Value

In accordance with the provisions of the Treaty, the main challenge for economic and social cohesion after 2006 is to maintain European solidarity and to promote balanced development across the enlarged Union, in order to reduce economic and social imbalances. Cohesion policy must therefore tackle the causes of these structural disparities, through increased possibilities for economic and social development and reinforced competitiveness in the supported regions.

The reform proposed by the Commission aims to strengthen the added value of cohesion policy through a combination of renewed policy and financial instruments and a simplified and effective implementation system.

Policy Instruments: A New Strategic Framework

Value added will be enhanced by the strategic dimension of cohesion policy, which will strengthen the link between financial instruments and the policy priorities of the Union, through a more active contribution of the Funds to sustainable growth, competitiveness and employment.

The policy objective is, on the one hand, to concentrate interventions in the member States and regions on the basis of strategic guidelines defined at community level and, on the other, to bring cohesion policy and its financial instruments in line with the implementation process of the Lisbon Strategy. In this regard, the annual debate at the Council on the basis of a report by the Commission will help to enhance the transparency of the implementation of cohesion policy.

Priority must be given to the least developed member States and regions of the Union, where the added value of community interventions is generally acknowledged, given of the significant advances achieved during the last 15 years. Investment should be more concentrated on well defined priorities which will ensure maximum impact in terms of progress in growth and well-being in the regions concerned. The first estimations undertaken of the impact of the 2007-2013 financial package (based on Commission proposals) suggest an increase in the level of GDP by the end of the period of about 10% in most member States. Part of these gains will be sustained beyond the end of the programme, declining steadily thereafter, the structural element transforming into additional growth. This, which represents from 40% to 60% of the GDP gain in most countries, demonstrates the supply side effects, which result in large part from the increase in global factor productivity. Particular attention will be given to good governance and strengthened administrative capacity to the extent that these factors determine the effectiveness of interventions.

Maintaining the community character of intervention outside these regions involves value added of a different nature. To a growing extent, these regions are facing problems arising from economic and social restructuring, globalisation and demographic changes, which often result in losses of competitiveness, employment and social cohesion. It is important to help these regions, which, although they are generally well endowed with physical infrastructure and an urban environment, need support to use better their potential for growth. In these regions, community support – even if it is financially limited – provides a real added value to national and regional policies and financing, due to a greater concentration on the promotion of new
approaches and the reorientation of public and private investment towards priorities of community interest (particularly innovation and the knowledge economy). Moreover, community financing has a leverage effect which is unique in the Union, in that it favours mutual learning and the diffusion of good practices across a diversity of national and regional contexts.

Finally, the future objective of territorial co-operation will aim – building on the experience of the past – to support joint initiatives to network on a trans-border and trans-national basis. The Commission has proposed the creation of legal entities, “European Groups for Trans-border Co-operation” (EGTC), which will oversee the implementation of trans-border programmes on the basis of an agreement between national, regional and local administrations.

The Implementation System

Experience has shown that the added value of the Structural Funds could be further improved by a more flexible and effective implementation system.

The implementation system will be simplified through a more transparent sharing of responsibilities between the Commission and the member States. The Commission wishes to apply more strictly than in the past the principles of subsidiarity and proportionality in the implementation of cohesion policy. This simplification will be facilitated by the reduction in the number of funds and the stages of programming, the abandoning of “micro-zoning” in regions outside Objective 1, clarification of financial management rules, and the introduction of proportionality in the areas of control and evaluation of interventions. A community performance reserve has also been proposed by the Commission which will provide a further an incentive to contribute to the achievement of the priorities of the Union.

In conclusion, the experience of cohesion policy throughout the last 15 years has demonstrated its capacity to enrich national and regional policies and its effectiveness in supporting economic and social development throughout the Union. The strengthened coherence between the intervention of the Funds and the objectives established at European level in the framework of the Lisbon Strategy gives it a further strategic dimension and will support and guide actions on the ground and facilitate the sharing of experience.